Pipelines unlocking bounty of Rocky Mountain's natural gas promise to even out national prices

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SALT LAKE CITY (AP) - In the Rocky Mountains, the energy crisis has mostly been a crisis for natural gas producers and a boon for consumers.

Last fall, gas suppliers competing to stuff excess production into constrained pipeline systems drove spot prices to a laughably low 5 cents for 1,000 cubic feet (28.32 cubic meters) of gas. That's the equivalent of a nickel to heat a typical house for two winter days.

"A lot of producers didn't think it was funny," said Porter Bennett, president and chief executive for energy analysts Bentek Energy LLC. "They were actually paying somebody to take it." Storing gas or turning off wells isn't always practical.

Yet for consumers across much of the West, where natural gas historically has been cheap and plentiful, the party is almost over, and it may have ended with that final discount splurge. The first of a handful of major new pipelines originating in the Rocky Mountains is starting to siphon away the bounty, promising lower prices for other regions.

"If you don't care about the rest of the country, it's not such a good thing," Bennett said in Golden, Colorado. "We kind of get screwed in the deal."

Gas suppliers say this equation works both ways -- if they can't maximize profits, fewer companies would bother drilling for natural gas in the West, which could lead to shortages and higher prices. They say gas production will continue to soar, keeping prices around here under control.

The new pipelines will take the Rockies' landlocked supply to major markets in California, the Phoenix area and flood the Midwest, where it can free up other supplies for the gas-starved Northeast.

The so-called big dog of these new pipelines -- the 1,678-mile (2,700-kilometer) Rockies Express from Meeker, Colorado, to Clarington, Ohio, -- is largely built and partly operational. It's the biggest pipeline project in the continental U.S. in the past quarter-century, said Joe Hollier, a spokesman for builder Kinder Morgan Energy Partners.

Nearing full capacity, the Rockies Express will move 1.6 billion cubic feet (50 million cubic meters) of natural gas a day -- a third more gas than the daily consumption of Denver and other cities along Colorado's Rocky Mountain Front.

Besides making more money for gas suppliers here, analysts say the new pipelines will even out national supplies and lop off price spikes in other regions, especially the East, but at the expense of Rocky Mountain states.

"We have felt the impact," said Mark Stutz, a spokesman for Colorado's Xcel Energy, which has been forced to raise rates by 36 percent this heating season and blames the new Rockies Express pipeline for the competition.

"The concern is that we are going to be paying prices that are more analogous to what we're seeing in the Midwest or California," he said. That could mean a doubling of rates, though analysts see more moderate, gradual increases.

Even now, relatively low prices persist in the Rocky Mountains because gas production is soaring with the price of oil, and new pipelines can quickly get leased to capacity, leaving some competition among producers.

A survey by The Associated Press found that households across the Rocky Mountains buying natural gas from major utilities pay as little as $6.36 (euro4.09) a decatherm, a heat value roughly equal to 1,000 cubic feet (28.32 cubic meters) of gas, depending on the quality.

In other parts of the continent, notably Georgia and South Carolina, natural gas can top $25 (euro16.07) a decatherm. Hawaii has the country's highest average prices at more than $34 (euro21.85), according to the U.S. Energy Information Administration.

Arizona has some of the West's highest prices for natural gas, but the doubling up of a pipeline from northwestern New Mexico will moderate higher-cost gas from Texas, said Libby Howell, a spokeswoman for Arizona's major supplier, Southwest Gas. It charges winter rates of $15.15 (euro9.74) a decatherm.

As long as gas production continues to ramp up in the Rocky Mountains, producers argue, local prices should stay under control.

And the outlook for gas production is strong, says Keith Rattie, chairman and chief executive of Salt Lake City-based Questar Corp., a gas driller and utility that has been beefing up its own pipeline systems in parts of Colorado, Utah and Wyoming and has huge reserves of gas.

"The producers are drilling away," he said.

Texas is the biggest U.S. producer of gas, but there's no shortage in the West. Beside working gas fields and known supplies, the Rocky Mountains alone contain more than

200 trillion cubic feet of probable natural gas reserves -- a 10-year supply for the whole nation, said John Curtis, a geologist who runs the Potential Gas Agency at the Colorado School of Mines.

For decades that gas sold for cheap. Now, suppliers are giddy at the prospects of higher profits.

Largely because of the new pipelines, Questar, among other Rocky Mountain producers, is planning to hold back no gas in storage this year. Questar hooked up to the Rockies Express in December.

"We're off to a good start," Rattie told investors in a conference call Feb. 13 on the company's performance. "Rockies prices should be much higher this year."

Not every gas driller is convinced.

"I'm personally very skeptical about getting in the Rockies for gas production, because the market is so volatile and weak at times," said Sidney J. Jansma Jr., president and chief executive of Grand Rapids, Michigan-based Wolverine Gas & Oil Corp., which is producing 10 percent of Utah's crude oil.
